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**MEMORANDUM**

TO: DMA Management & State Plan E-mail Subscribers

FROM: Kris M. Horton, State Plan Coordinator

SUBJECT: Update to State Plan for Medical Assistance (110)

DATE: March 16, 2006

The following changes were made in the NC Medicaid State Plan manual. CMS approved SPA 05-008 on January 17, 2006 with an effective date of June 30, 2005. The pages to SPA 05-008 are attached to this memo for your files. There is no need to change and replace the pages of your state plan as the language in 05-008 was incorporated in SPA 05-015 which was approved December 15, 2005. (See SPA update letter 109).

This memo is only to inform you that June 30, 2005 is the effective date for SPA 05-008. The pages affected are: Attachment 4.19-A, Pages 1, 2, 7 and 8.

You may view the Plan (SPA 05-015) on DMA's website at http://www.dhhs.state.nc.us/dma/sp.htm .

Feel free to contact me at (919) 855-4109 should you have questions or concerns.

Attachment

State Plan Under Title XIX of the Social Security Act
Medical Assistance Program
State: NORTH CAROLINA

Payments for Medical and Remedial Care and Services: Inpatient Hospital

# HOSPITAL INPATIENT REIMBURSEMENT PLAN

## REIMBURSEMENT PRINCIPLES

Effective for discharges occurring on or after January 1, 1995 acute care general hospital inpatient services shall be reimbursed using a Diagnosis Related Groups (DRG) system, except as noted in EXCEPTIONS TO DRG REIMBURSEMENT section of this plan.

## DRG RATE SETTING METHODOLOGY

(a) Diagnosis Related Groups is a system of classification for hospital inpatient services. For each hospital admission, a single DRG category shall be assigned based on the patient's diagnosis, age, procedures performed, length of stay, and discharge status. For claims with dates of services prior to January 1, 1995 payments shall be based on the reimbursement per diem in effect prior to January 1, 1995. However, for claims related to services where the admission was prior to January 1, 1995 and the discharge was after December 31, 1994, then the greater of the total per diem for services rendered prior to January 1, 1995, or the appropriate DRG payment shall be made.

(b) The Division of Medical Assistance (Division) shall use the DRG assignment logic of the Medicare Grouper to assign individual claims to a DRG category. Medicare revises the Grouper each year in October. The Division shall install the most recent version of the Medicare Grouper implemented by Medicare to be effective October 1 of each following rate year. The initial DRG in Version 12 of the Medicare Grouper, related to the care of premature neonates and other newborns numbered 385 through 391, shall be replaced with the following classifications:

385 Neonate, died or transferred, length of stay less than 3 days

801 Birth weight less than 1,000 grams

802 Birthweight 1,000 – 1,499 grams

803 Birthweight 1,500 – 1,999 grams

804 Birthweight >=2,000 grams, with Respiratory Distress Syndrome

805 Birthweight >=2,000 grams premature with major problems

810 Neonate with low birthweight diagnosis, age greater than 28 days at admission

389 Birthweight >= 2,000 grams, full term with major problems

390 Birthweight >= 2,000 grams, full term with other problems or premature without major problems

391 Birthweight >= 2,000 grams, full term without complicating diagnoses

(c) DRG relative weights are a measure of the relative resources required in the treatment of the average case falling within a particular DRG category. The average DRG weight for all discharges from a particular hospital is known as the Case Mix Index (CMI). The statewide average CMI for all hospitals is utilized for out-of-state providers.

(1) The Division shall establish relative weights for each utilized DRG based on a recent data set of historical claims submitted for Medicaid recipients. Charges on each historical claim shall be converted to estimated costs by applying the hospital specific cost to charge ratio calculated from each hospital's submitted Medicaid cost report. Cost estimates are standardized by removing direct and indirect medical education costs at the appropriate rates for each hospital.

supports a determination that the associated cost either exceeded the costs or was for services that were not medically necessary or for services not covered by the North Carolina Medically Assistance program.

(1) A day outlier threshold shall be established for each DRG at the time DRG relative weights are calculated, using the same information used to establish the relative weights. The day outlier threshold is the greater of 30 days or the arithmetical average length of stay for the DRG plus 1.50 standard deviations.

(2) A day outlier per diem payment may be made for covered days in excess of the day outlier threshold at 75% of the hospital's payment rate for the DRG rate divided by the DRG average length stay.

(h) Services which qualify for both cost outlier and day outlier payments under this plan shall receive the greater of the cost outlier or day outlier payment.

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EXCEPTIONS TO DRG REIMBURSEMENT

(a) Covered psychiatric and rehabilitation inpatient services provided in either specialty hospitals, Medicare recognized distinct part units (DPU), or other beds in general acute care hospitals shall be reimbursed on a per diem ethodology.

(1) For the purposes of this Section, psychiatric inpatient services are defined as admissions where the primary reason for admission would result in the assignment of a psychiatric DRG code in the range 424 through 437, and 521 through 523. All services provided by specialty psychiatric hospitals are presumed to come under this definition.

(2) For the purposes of this Section, rehabilitation inpatient services are defined as admissions where the primary reason for admissions would result in the assignment of DRG 462. All services provided by specialty rehabilitation hospitals are presumed to come under this definition.

(3) When a patient has a medically appropriate transfer from a medical or surgical bed to psychiatric or rehabilitative distinct part unit within the same hospital, or to a specialty hospital the admission to the distinct part unit or the specialty hospital shall be recognized as a separate service which is eligible for reimbursement under the per diem methodology.

(4) Transfers occurring within general hospitals from acute care services to non-DPU psychiatric or rehabilitation services are not eligible for reimbursement under this Section. The entire hospital stay in these instances shall be reimbursed under the DRG methodology.

(5) The per diem base rate for psychiatric services is established at the lesser of the actual cost or the calculated median rate of all hospitals providing psychiatric services, as derived from the 2003 Medicaid cost report or the most recent as filed cost report, trended forward to the rate year. Providers that routinely provide psychiatric services and whose base rate trended forward to State Fiscal Year 2005 and whose base rate is less than their rate as of October 1, 2004, shall have their base rate established at the October 1, 2004 amount and trended forward in subsequent years.

(6) Hospitals that do not routinely provide psychiatric services shall have their rate set at the median rate for all other psychiatric hospitals in paragraph (3) above.

(7) The per diem rate for rehabilitation services is established at the lesser of the actual cost trended to the rate year or the calculated median rate of all hospitals providing rehabilitation services as derived from the most recent filed cost reports.

(8) Rates established under this Paragraph are adjusted for inflation consistent with the methodology under Subparagraph (d)(5) of the DRG RATE SETTING METHODOLOGY.

(b) To assure compliance with the separate upper payment limit for State-operated facilities, the hospitals operated by the Department of Health and Human Services and all the primary affiliated teaching hospitals for the University of North Carolina Medical Schools will be reimbursed their reasonable costs in accordance with the provisions of the Medicare Provider Reimbursement Manual. This Manual referred to as,